

BETTY T. YEE, BOARD MEMBER STATE BOARD OF EQUALIZATION

Serving the 8.5 million Californians of the First Equalization District,
comprised of 21 counties along the northern and central California
coast, including the entire San Francisco Bay Area.



VOLUME VI, ISSUE III

JULY - SEPTEMBER 2012



QUARTERLY ENEWSLETTER

Welcome to the Autumn edition of my eNewsletter.

The third quarter of 2012 showed some hopeful signs of economic recovery, with sustained month-over-month job gains nationally and in California. New housing starts and a slowdown in foreclosure activity are welcomed signs of recovery for Californians. Very promising is the record-level output of California's agricultural sector.

As California's economy rebounds, the state's budget challenges continue. Voters in November will be deciding on several tax and fiscal ballot measures, including Proposition 30 sponsored by Governor Jerry Brown that proposes temporary tax increases the revenues from which have been assumed in the 2012-13 State Budget. Additionally, uncertainty with the federal budget and federal aid to states is cause for additional concern.

Amidst this uncertainty, the Board of Equalization (BOE) continues to do its part to ensure the highest level of compliance by California taxpayers. This includes expansion of our e-services to make it easier for taxpayers to transact business with the BOE, as well as investing in low-cost efficient and effective professional development for our employees so they may be better equipped to serve our taxpaying customers.

Among my outreach activities this past quarter were the visits I made to local chambers of commerce and local government officials in the central coast region of the First Equalization District, including meetings with the San Luis Obispo Chamber of Commerce, the Monterey Peninsula Chamber of Commerce, and the Old Town Salinas Association, as well as meetings with the assessors of Santa Barbara, San Luis Obispo, Monterey, San Benito, and Santa Cruz counties. While the central coast region of the First District has fared relatively better than other parts of the state during the Great Recession, local communities are addressing the challenges and effects of State Budget cuts affecting their jurisdictions, especially the effects of the elimination of redevelopment agencies that have halted economic development projects. Additionally, the central coast region was not immune from the job losses and declines in property values during the recession. I am grateful to have had the opportunity to listen to the concerns of local businesses and local government officials and also to provide an update on BOE and other state resources that are available to assist small businesses.

As the state's economy continues to experience hopeful and sustained signs of recovery, it is critical that the State and local governments continue to work together to ensure government is responsive to the needs of communities throughout the state. I and my office are proud and privileged to continue serving our constituents of the First Equalization District and beyond. Thank you.

Sincerely,

BETTY T. YEE

To learn more about services
provided by the
State Board of Equalization,
please call my office or
visit my web site at:
www.boe.ca.gov/members/yee

SAN FRANCISCO
BOARD MEMBER'S OFFICE
455 Golden Gate Avenue, Suite 10500
San Francisco, CA 94102
Office: 415-557-3000
Fax: 415-557-0287

SACRAMENTO
BOARD MEMBER'S OFFICE
450 N Street, MIC: 71
Sacramento, CA 95814
Office: 916-445-4081
Fax: 916-324-2087

OF SIGNIFICANCE THIS QUARTER

NEW USE TAX COLLECTION REQUIREMENTS FOR OUT-OF-STATE RETAILERS BEGAN SEPTEMBER 15TH



As of September 15th, most large, out-of-state online retailers are now required to collect tax from California consumers at the time these consumers make their online purchases. As part of last year's State Budget agreement, Governor Brown signed a new law expanding enforcement of the 77-year old use tax to more online retailers to ensure fairness among Main Street and online businesses. Amazon.com responded by proposing a referendum to repeal the new law. The Legislature and the Governor then compromised with Amazon by suspending the new law to give time for the federal government to take action. Under the compromise, the new state law would take effect on September 15th, unless Congress enacted a federal e-fairness law affecting all states. Because Congress did not take action, the new state requirements are now in effect.

The **new law** gives the BOE additional authority to require out-of-state online businesses to collect tax, as local retailers do. As a result of the expanded authority, more online retailers must register with BOE to collect tax. This means consumers will see tax collected with their internet purchases as they as complete the sale online, in the same way tax is collected when they visit a local store. This will reduce the number of sales consumers need to keep track of and report themselves.

It is important to remember that even with the new law, consumers still may have use tax obligations if they make purchases from small online retailers who are not covered by the law. Use tax due may be reported and paid on the income tax return or directly to BOE. Visit the BOE website for more information about **California Use Tax**.

CELEBRATING LABOR DAY

President Grover Cleveland established Labor Day in 1894 in response to a national Labor Day movement that had been growing for some time. Both immigrant and American-born workers came together to demand improved working conditions and wages during a time of increasing income disparity.

During the late 19th century, the average American typically worked 12-hour days and seven-day weeks in order to make a basic living. Even children as young as age 5 or 6 would work in mills, factories, and mines across the country, earning a fraction of the wages of their adult counterparts. People of all ages, particularly the very poor and recent immigrants, often faced extremely unsafe working conditions, with insufficient access to fresh air, sanitary facilities, and breaks.

Early efforts at improving the plight of workers were later rewarded with landmark

legislation: the Fair Labor Standards Act of 1938 and the Occupational Safety and Health Act of 1970 that aimed to end child labor, establish a minimum wage, and enforce health and safety standards for the nation's workforce.

According to the Bureau of Labor Statistics, as of June 2012 there were 155.2 million people ages 16 and older in the nation's labor force, 85% of whom are full-time workers ages 18 to 64 and covered by health insurance in 2010. Of the 14.1 million employed in California in 2011, 2.4 million, or 17.1 percent, were members of unions.

We salute and pay tribute to the American worker, working class individuals, and small business owners in California on this occasion of Labor Day when many are experiencing the effects of a widening income gap yet working more hours to meet the needs of their families.

Labor Day Puzzle: See if you can find the following words hidden in the puzzle below:

		American Labor	Cleveland Parade	Economy Summer	Industrial Trade	Union			
A	B	N	N	P	Y	E	P	S	L
R	M	S	O	P	B	A	T	A	E
O	Y	E	C	I	R	I	I	R	C
B	B	L	R	A	N	R	I	E	O
A	S	B	D	I	T	U	D	J	N
L	G	E	H	S	C	A	M	R	O
X	B	I	U	Z	R	A	P	D	M
Y	W	D	G	T	U	J	N	R	Y
V	N	G	U	R	E	M	M	U	S
I	C	L	E	V	E	L	A	N	D

MAJOR LEAGUE BASEBALL IN FIRST DISTRICT ROCKS!

The San Francisco Giants and the Oakland Athletics baseball teams both are currently in post-season play. The San Francisco Giants clinched the National League (NL) West title (their second NL West title in three years) on September 22nd in an 8-4 victory over the San Diego Padres. The Oakland Athletics captured the American League (AL) West title with their 12-5 victory over the Texas Rangers on October 3rd, securing their first post-season appearance since 2006. Thanks to the on-field success of both the San Francisco and Oakland Major League Baseball franchises,



local bars, restaurants, and sporting goods stores are being frequented by excited fans, leading to a surge in sales for these Bay Area businesses.

REMEMBER TO VOTE NOVEMBER 6, 2012

Statewide Ballot Measures

Tuesday, November 6, 2012 marks the presidential general election in California and across the country. In addition to casting a vote for U.S. President, registered voters in California will be asked to decide the outcome of 11 statewide ballot measures relating to fiscal and other policy matters.

Here is a brief overview of the **qualified ballot measures** on the November 6, 2012 statewide ballot:

Proposition 30—Temporary Taxes to Fund Education and Public Safety: Increase personal income tax on annual earnings over \$250,000 for seven years and increases sales and use tax by a ¼ cent for four years. Of the revenues generated, 89% would go to K-12 schools and 11% would go to community colleges. Guarantee funding for public safety services realigned from state to local governments.

Proposition 31—Budget Reform: Among other things, establishes a two-year budget cycle, prohibits the Legislature from creating expenditures of more than \$25 million unless offsetting revenues or spending cuts are identified, and permits Governor to cut budget unilaterally during declared fiscal emergencies.

Proposition 32—Political Contributions by Payroll Deduction: Prohibits unions and corporations from making direct or indirect contributions to candidates and candidate controlled committees or using payroll-deducted funds for political purposes. Excludes partnerships, sole proprietors, and corporate shareholders.

Proposition 33—Auto Insurance Rates Based on Driver's History of Insurance Coverage: Changes current law to allow insurance companies to set prices based on whether the driver previously carried auto insurance with any insurance company.



Proposition 34—Repeal of the Death Penalty: Repeals the death penalty as maximum punishment for persons found guilty of murder and replaces it with life imprisonment without possibility of parole. This applies retroactively to persons already sentenced to death.

Proposition 35—Human Trafficking: Increases criminal penalties for human trafficking, including prison sentences up to 15-years-to-life and fines up to \$1,500,000. Requires persons convicted of trafficking to register as a sex offender.

Proposition 36—Repeal of “Three Strikes” Law: Revises the three strikes law to impose life sentence only when new felony conviction is serious or violent. Authorizes re-sentencing for offenders currently serving life sentences if third strike conviction was not serious or violent and judge determines sentence does not pose unreasonable risk to society.

Proposition 37—Labeling of Genetically Engineered Foods: Requires labeling on raw or processed food offered for sale to consumers if made from plants or animals with genetic material changed in specified ways. Prohibits labeling or advertising such food as “natural.”

Proposition 38—Taxes to Fund Education and Early Childhood Programs: Increases personal income tax rates on annual earnings over \$7,316 using sliding scale down from 0.4% for the lowest individual earners up to 2.2% for individuals earning over \$2.5 million, for twelve years. During first four years, allocates 60% of revenues to K-12 schools, 30% to repaying state debt, and 10% to early childhood programs. Thereafter, allocates 85% of revenues to K-12 schools, 15% to early childhood programs.

Proposition 39—Tax Treatment for Multistate Businesses: Requires multistate businesses to calculate their California income tax liability based on the percentage of their sales in California; repeals existing law giving multistate businesses an option to choose a tax liability formula that provides favorable tax treatment for businesses with property and payroll outside

Proposition 40—State Senate District Redistricting Referendum: A “Yes” vote approves, and a “No” vote rejects, new State Senate districts drawn by the Citizens Redistricting Commission. If new districts are rejected, the State Senate district boundary lines will be adjusted by officials supervised by the California Supreme Court.

Being a Responsible Voter

Voting is a significant privilege and right and an awesome responsibility. In deciding how you will cast your vote for each of the ballot measures, get fully informed by consulting the **Official Voter Information Guide** issued by the California Secretary of State. The Guide provides, among other things, the official title and summary, the Legislative Analyst analysis, and the arguments in favor and against each of the ballot measures, along with a Quick

Reference Guide that includes contacts for obtaining additional information about each measure.



Register and Vote: Key Dates to Remember

It is not too late to register to vote in this November's election if you are eligible to vote. Here are some key dates coming up to remember:

October 22: Last day to register to vote. You now may **register to vote online**.

October 30: Last day to apply for a vote-by-mail ballot by mail.

November 6: Election Day. Polls will be open from 7:00 AM to 8:00 PM.

CALIFORNIA ECONOMIC UPDATE

ECONOMIC OUTLOOK IMPROVES

In August, the Department of Labor reported that private sector establishments added 103,000 jobs and non-farm payroll employment rose by 96,000. For 30 straight months, the economy has added private sector employment for a total of 4.6 million jobs. The nation's unemployment rate dropped from 8.3 to 8.1 percent.

While California's 10.6 percent unemployment rate is higher than the national average, our job growth fares better. Since June of last year, California's 2 percent job growth outpaced the national average of 1.4 percent. Since January, 147,700 new jobs were added to the state's workforce.

In June, 38,300 jobs were added to the state's workforce and May's initially reported gain of 33,900 was revised up to a 45,000-job gain. Industries with job gains include trade, transportation, and utilities; leisure and hospitality; construction; and professional

and business services. Even with job losses in manufacturing, education, health services, government, mining, and logging, June marked California's 11th consecutive month-over-month job gain.

Housing, which represents 10 percent of California's economy, is on the rebound overall. Last year, new housing permits totaled 47,100. This year, that number should reach 60,000. In June, sales prices of existing homes rose for the fourth consecutive month. Single family homes sold at \$320,540, up 8.1 percent from last year. The latest foreclosure numbers indicate some relief to distressed homeowners. This August, foreclosure activity decreased by 32 percent when compared to August 2011.

California's agriculture output reached a record high of \$43.5 billion last year. Our farm and dairy cash receipts represented 11.9



Ms. Yee meeting with the San Luis Obispo Chamber of Commerce.

percent of the U.S. total for 2011. California's average farm real estate was valued at \$7,200 per acre, an all-time record high.

PEW RESEARCH CENTER SURVEY: RECESSION WIPED OUT MIDDLE CLASS GAINS

In a climate of uncertainty and political conflict, one thing on which most Americans can agree is that the promise of the American dream is slipping out of reach for too many of our citizens. A nationally representative **Pew Research Center survey** released in August finds most Americans agree that the middle class is getting smaller, poorer, and more pessimistic about the future.

The survey suggests that the Great Recession wiped out much of the economic gains made by the middle class in this last four decades. The survey included 1,287 adults who describe themselves as middle class, supplemented by the Center's analysis of data from the U.S. Census Bureau and the Federal Reserve Board of Governors.

Among the starkest results from the survey, a full 85% of self-described middle-class adults say it is now more difficult than it was a decade ago for middle-class families to maintain their standard of living. Those polled gave several different causes for this new reality—

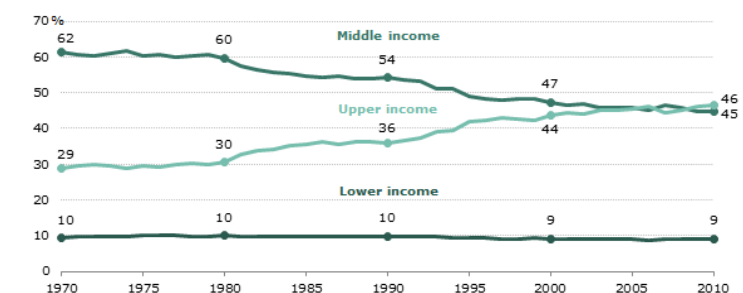
including Congress, banks, and large corporations—while only 8% blamed the middle-class itself for their situation.

The middle-class in this survey is defined as all adults whose annual household income is two thirds to double the median national income. In 2011, this middle-income tier included 51% of all adults; in 1971, it included 61%. By the end of the 2000s, the median income of

the middle-income tier fell by 5%, but even more alarming, the median wealth of this group (assets minus debt) declined by 28%, to \$93,150 from \$129,582.

The shrinking middle class has led to a country of well-defined economic tiers where many Americans are finding it increasingly difficult keep their heads above water. The upper-income tier rose in size to 20% of adults in 2011, up from 14% in 1971; the lower-income tier rose to 29% in the same period, up from 25%. The middle-income tier is the only group shrinking both in size

Percentage Distribution of U.S. Aggregate Household Income, by Income Tier, 1970-2010



Notes: Households are assigned to income categories based on their size-adjusted income in the calendar year prior to the survey year (e.g., 2010 income is reported in the 2011 survey). Their unadjusted incomes are then totaled to compute the share of an income group in U.S. aggregate household income. Percentages in each year may not add to 100% due to rounding.

Source: Pew Research Center tabulations of the Current Population Survey, Annual Social and Economic Supplements, 1971-2011
PEW RESEARCH CENTER

and in household wealth. The middle class now takes in 45% of the nation's household income, down from 62% in 1971.

Bleak as these numbers may seem, there is much that can be done at the local, state, and national level to reverse this slide and get middle class families moving in the right direction. Responding to the Pew survey, Ms. Yee remarks, "Increased investments in education, job training, infrastructure, technology, and innovation will embolden all Americans to face our common challenges and get this country working for everyone."

STATE BUDGET UPDATE



To enact a balanced **2012-13 State Budget**, the Legislature and Governor approved deep cuts in vital services and programs. Reductions of \$8.1 billion were made to K-12 education, higher education, parks, corrections, and a variety of health and social service programs serving low-income children, women, and families. To prevent further cuts to these and other programs, the Legislature and Governor rely on voter approval of Proposition 30 on the November 2012 ballot measure that would generate an estimated \$6.9 billion for the 2012-13 Budget.

Temporary Tax Solutions

Proposition 30 would temporarily raise income tax rates on high-income earners for seven years, and raise sales and use tax by a ¼ cent for four years. It will generate average annual revenues of \$6 billion after the first year and will be used for K-12 education and general fund purposes. This measure is the only one of the tax measures on the November ballot that provides that its new revenues would be available to fund programs in the State Budget. Proposition 30 also permanently dedicates revenues directed in 2011 for the

realignment of public safety responsibilities from the state to counties relating to the incarceration of low-level adult offenders, the supervision of parolees, and substance abuse treatment services, thereby avoiding an unfunded mandate for counties.

If Proposition 30 is rejected by the voters, automatic reductions of \$6 billion will take place on January 1, 2013. Cuts of \$5.4 billion will be made to K-12 education and reductions of \$250 million each will be made to the University of California and the California State University.

Proposition 38, another November ballot measure, would also raise revenues if approved. This measure would temporarily increase personal income tax rates for almost all Californians for 12 years. Proposition 38 is projected to generate \$10 billion in the initial years, and raise greater amounts thereafter. Under this measure, 30% of revenues raised would repay state debt during the first 4 years of the tax increases with all other remaining revenues directed toward K-12 education and early childhood education programs.

If both Proposition 30 and Proposition 38 are approved by the voters, the initiative with the largest number of votes shall prevail. Therefore, if Proposition 30 receives the most votes, then its provisions would take effect. If Proposition 38 receives more votes, then only its personal income tax rate increase provisions would become law, and the \$6 billion in triggered cuts with the voter rejection of Proposition 30 would proceed (see chart to the right).



Ms. Yee speaking at the Stonewall Young Dems 6th HERO Awards.

Ballot Trigger Reductions (Dollars in Millions)

Expenditure Reductions	2012-13
Proposition 98	\$5,353.8
University of California ^{1/}	250.0
California State University ^{1/}	250.0
Developmental Services	50.0
City Police Departments: Grants	20.0
Department of Forestry and Fire Protection	10.0
Flood Control	6.6
Local Water Safety Patrol	5.0
Fish and Game: Non-Warden Programs	2.5
Park Lifeguards	1.4
Fish and Game: Wardens	1.0
Department of Justice	1.0
Park Rangers	0.1
Total	\$5,951.4

^{1/} This level of savings may be offset by Cal Grant increases if the universities raise tuition.

Source: California Budget Act of 2012-2013



Ms. Yee joined Judy Ki at the 9th Annual Asian Heritage Awards in San Diego

Olympic Athletes and Taxes

Did you know...

That the prizes of U.S. Olympic medalists are subject to state income tax in California?

The U.S. Olympic Committee awards \$25,000 for each gold medal; \$15,000 for a silver; and \$10,000 for a bronze. California's athletes won 52 golds, 28 silvers and 13 bronzes for a total of 93 Olympic medals.



UNCERTAINTY WILL CONTINUE TO CHALLENGE CALIFORNIA'S FISCAL SITUATION

Regardless of whether voters approve Proposition 30, which will help to stabilize the State Budget, California's finances will continue to face uncertainty due largely to the slow recovery from the 2007-09 economic recession. Evidence of this can be found in the continued under-realization of state revenues (e.g., **July revenues** fell short of projections by \$346 million); volatile trends in the overall stock market that continue to produce low and unpredictable levels of personal income tax revenues; persistently high rates of **unemployment**, a slow housing market, low consumer confidence).

Adding to the state's fiscal challenges is **federal sequestration**, which cuts the federal budget by \$1.2 trillion over ten years, beginning January 2, 2013. Sequestration will reduce billions of dollars in federal aid for the states. In federal fiscal year 2013, California is projected to receive a cut of **\$1.3 billion** that will affect education, low-income housing, seniors, women and children, college work study, and other programs.

Another example of revenue uncertainty is the Facebook Initial Public Offering (IPO). Recently, the **Legislative Analyst's Office** projected the May 18 IPO would likely produce hundreds of

millions of dollars less than the \$1.9 billion in revenues assumed in the 2012-13 state budget, thereby creating a shortfall for the current year.

Additionally, recent use of the State's **Special Fund Accounts** (SFA) requires the state to develop a plan for repaying these funds. SFA has over 500 accounts with specific funding sources for specific programs, and has been used to balance the General Fund (\$4.3 billion). It is likely SFA will be used for cash flow in 2012-13 (up to \$16 billion).

Option for Raising Revenues

Ms. Yee has been leading community discussions about an under-utilized legislative strategy for increasing state revenues by considering the elimination, suspension, or modification of ineffective or outdated **tax expenditure programs** (TEPs). Most recently, Ms. Yee gave detailed a **presentation** on how best to raise revenue enough to fund safety net programs at a **Women's Foundation of California** June town hall meeting in Sacramento and again at the organization's September panel in Long Beach.

TEPs provide individuals and businesses with a special tax exclusion, exemption or deduction from gross income, or provide a special tax credit, preferential tax rate, or deferral of tax liability. California has several hundred TEPs with an estimated value of \$45 billion. TEPs relating to personal income tax have an estimated value of \$30 billion, while corporate TEPs and sales and use tax TEPs have estimated values of \$5 billion and \$9 billion, respectively. There are also TEPs involving insurance tax, other state taxes, and local property tax as well.

The rationale for TEPs is to provide tax relief for specific and unusual



Ms. Yee at the California Women's Empowerment Conference.

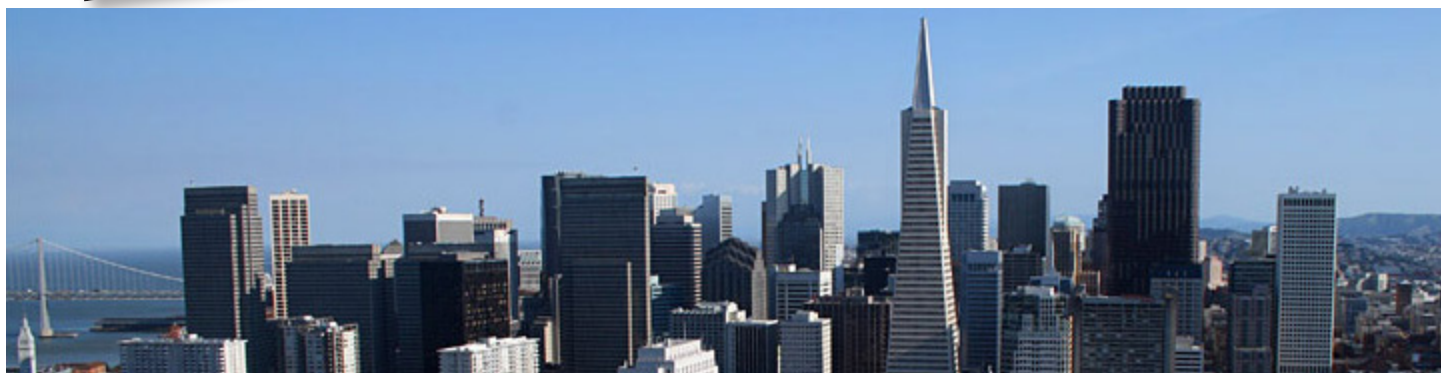
monetary costs (e.g., purchase of high tech machinery), or to provide incentives to change taxpayer behavior for a desired policy goal (e.g., encourage job creation). However, many argue TEPs have outlived their purpose or validity and should be terminated or modified.

Examples of TEPs that may be considered for repeal, suspension, or modification as they may have outlived their original policy rationale include: the mortgage interest deduction on second homes; limiting the deduction of charitable contributions for high income earners; and repealing the stepped-up basis for property inherited from deaths for all taxpayers.

Ms. Yee notes, "Revising ineffective or outdated tax expenditure programs is a viable strategy that can improve our budget and restore critical services for our struggling and vulnerable California residents as well as restore tax fairness. It is imperative that the Legislature incorporate the examination of TEPs in its annual budget process so the policy choices for use of our limited revenue is clear and transparent to the public."



Ms. Yee at the opening dinner of the American Chinese Cultural Exchange and Trading Association (ACCETA).



TAXABLE SALES IN CALIFORNIA SIGNAL ECONOMIC GROWTH

SECOND QUARTER 2011: CALIFORNIA TAXABLE SALES INCREASE 9.6 PERCENT

In the second quarter of 2011, **taxable sales** in California rose sharply to 9.6 percent compared to those same months in 2010. During this period, taxable sales totaled \$129.9 billion, which represents an increase of \$11.4 billion during the same period from 2010 to 2011.

In constant dollar terms, second quarter 2011 taxable sales increased 4.7 percent from the same quarter the previous year. The California Taxable Sales Deflator, which measures the rate of change of all taxable sales in the state, was up 4.7 percent. The increase in the prices of taxable goods was much higher than the 2.9 percent increase in the California Consumer Price Index, which measures price changes of both taxable and nontaxable goods and services.

Taxable sales grew 4.0 percent faster than California personal income in the second quarter.

Retail Compared to Nonretail

How did retail taxable sales compare to nonretail? Retail stores accounted for 68 percent of total taxable sales in the second quarter of 2011, while the remaining 32 percent was attributable to nonretail outlets. Taxable sales from total retail and food service stores rose 9.4 percent, slower than the 10 percent increase by total nonretail outlets. Nonretail taxable sales include

Counties with increases in taxable sales

Alameda	7.7	Mariposa	7.1	San Luis Obispo	13.1
Alpine	18.0	Mendocino	7.7	San Mateo	8.2
Amador	8.8	Merced	11.4	Santa Barbara	9.0
Butte	6.4	Modoc	13.9	Santa Clara	12.4
Calaveras	3.1	Mono	11.8	Santa Cruz	7.8
Contra Costa	8.5	Monterey	5.6	Shasta	6.4
Del Norte	2.9	Napa	7.4	Siskiyou	18.9
El Dorado	3.8	Nevada	2.9	Solano	7.2
Fresno	13.1	Orange	8.9	Sonoma	8.4
Glenn	8.3	Placer	10.4	Stanislaus	9.5
Imperial	7.1	Plumas	10.8	Sutter	6.6
Kern	31.1	Riverside	11.7	Tehama	23.9
Kings	17.7	Sacramento	7.8	Trinity	15.4
Lake	11.3	San Benito	11.6	Tulare	10.9
Lassen	9.0	San Bernardino	10.2	Tuolumne	11.5
Los Angeles	8.5	San Diego	8.8	Ventura	8.6
Madera	10.4	San Francisco	9.9	Yolo	5.3
Marin	4.3	San Joaquin	9.2	Yuba	11.6

Counties with decreases in taxable sales

Colusa	-2.7	Inyo	-1.2
Humboldt	-2.4	Sierra	-45.5

items such as a business equipment and construction materials. The strong taxable sales of nonretail goods are consistent with national data showing sharply rising sales of business equipment and software.

The rest of the major retail sectors had a taxable sales growth less than the overall average of 9.6 percent. Increases in these other retail sectors ranged from a low of 2.3 percent for sporting goods and hobbies, to a high of 8.7 percent for clothing and accessories.

Gas Stations

Taxable sales from gas stations rose faster than any other major type of retailer, 30.5 percent during the second quarter of 2011, compared to the second quarter of 2010. Gallons-of-gas-sold declined by 3.6 percent, while prices actually increased by 31.5 percent. This accounted for much of that sector's increase. California used car sales rose by 15.5 percent; new car sales remain strong at 9.8 percent.



LEGISLATIVE UPDATE

TAX RELATED MEASURES

This quarter, Ms. Yee took a prominent role on two important tax-related measures.

Homeowner Protection:

Assembly Bill 1700 (Butler) protects surviving co-owners from the financial hardship of property reassessment when a loved one passes away. More specifically, it provides that a transfer of a co-tenancy interest in real property from one cotenant to the other that takes effect upon the death of the transferor co-tenant after January 1, 2013, does not constitute a change of ownership. AB 1700 was signed by the Governor on September 29.

After working passionately to support its passage, Ms. Yee stated “AB 1700 acknowledges the true diversity of families and households in California and provides critical protection for homeowners, especially those who are elderly and challenged by today’s fiscal climate.”



BOE Published Decisions:

Ms. Yee also made significant efforts to make more workable and purposeful a bill intended to provide taxpayers with greater guidance to tax rules. Assembly Bill 2323 (Perea) requires the BOE to publish written formal, memorandum, and summary opinions on its website within 120 days of its decision in appeals matters if the amount in controversy exceeds \$500,000.

Ms. Yee agrees more BOE decisions should be published to improve taxpayer understanding of

how tax laws are interpreted. However, she is concerned that the \$500,000 threshold in AB 2323 is an arbitrary standard for requiring publication that in many instances will not lead to the expansion of taxpayer guidance. During the legislative process, Ms. Yee proposed that Board Members be required to vote in public hearings on whether each decision should be published as a precedential decision. This would expand transparency and accountability and encourage the publication of decisions that should serve as precedent.

Unfortunately, AB 2323 passed out of the Legislature with little modification, and was signed into law on September 29.

LUMBER PRODUCTS ASSESSMENT

The Governor signed Assembly Bill 1492 (Assembly Budget Committee) on September 11 to add a 1 percent assessment to the sale of lumber products and engineered wood products. The new assessment is intended to provide sustainable funding for state forestry programs such as restoration and improvement grants by replacing the current piecemeal funding structure with a single funding source.

Beginning January 1, 2013, the assessment will be imposed on the purchasers of timber products that are bought for storage, use, or consumption in California. Retailers will be required to charge the assessment, separately state it on the sales receipt, and collect it at the time of sale. An **emergency regulation** identifying the products subject

to the assessment was adopted last month by the State Board of Forestry and Fire Protection. The BOE anticipates adopting the emergency regulation, pursuant to the statute, at its October 23-25 meeting in Culver City to meet the required January implementation date.

AB 1492 is projected to generate \$30 million annually to support state activities relating to the management of forest lands and timber operations. Funds will also be used for collection costs incurred by the Board of Equalization, and they may be used for management of forest lands, the cost of managing forest resource programs, and for fire protection, fire suppression and restoration activities.



Ms. Yee attending an art exhibition for Bai Lu in San Francisco.

WHAT'S NEW AT THE BOE?

REGISTRATION



The BOE's new eReg program went live in June 2012 and in its first 45 days, had already reached more than 25,000 taxpayers. With most business owners now doing their banking and finances online via computers and smart phones, the BOE has taken steps to modernize and streamline how it does business as well.

The BOE's new eReg program now compliments our eFile and ePay systems which allow business owners to quickly file their sales tax returns and make payments on their accounts. In May 2012 the BOE also launched the "ePay Mobile Application" that gives smart phone owners the added flexibility of making payments to their BOE accounts directly from their Android or iPhone devices.

ESERVICES EXPANSION

Two new eservices, Online Requests for Relief and eFiling for Cigarette Manufacturers and Distributors, were launched October 1. On the first day, BOE received 23 online requests for relief. Cigarette efilers will begin reporting in November.

For more information and to view our [eServices](#) menu, you can visit our website.

BOE'S SUISUN CITY BRANCH OFFICE MOVES TO FAIRFIELD

The Suisun City Branch Office opened at the new [Fairfield location](#) on Monday, September 24. The move from Suisun City to Fairfield was part of BOE's continued efforts to operate more efficiently. The new location offers taxpayers an improved customer service lobby, maximizes technology with self-service kiosks, and continues to provide convenient on-site BOE staff assistance to taxpayers.

FIRE PREVENTION FEE

The Fire Prevention Fee (Assembly Bill 29 of the First Extraordinary Session of the 2011-2012 Legislative Session) was signed into law and went in effect on July 7, 2011. AB 29X established an annual fee for fire prevention services within the "State Responsibility Area" where the State of California is financially responsible for the prevention and suppression of wildfires.

The California Department of Forestry and Fire Protection (CAL FIRE) is responsible for identifying home owners subject to the fee and determining the fee amount. The BOE began issuing billings on behalf of CAL FIRE this past August for 2011-12 fiscal year (July 1, 2011 through June 30, 2012). Billing notices for the 2012-13 fiscal year will be mailed in early 2013 and



are scheduled for mailing around the same time each year.

If anyone has received a billing believed to have been made in error or if the fee amount is incorrect, one may petition CAL FIRE for a redetermination of the amount due by submitting a [Fire Prevention Fee Petition for Redetermination form](#) available on the CalFire website.

PROFESSIONAL DEVELOPMENT DAYS

The BOE has recently launched Professional Development Days for our most valued asset, our employees. This one-day training program, presented by BOE employees for BOE employees, offers up

to date information on statutory, regulatory, and policy changes that affect how they serve our taxpaying customers. Employees have an opportunity to network with their colleagues and share best practices.

NEW SALES AND USE TAX RATES

Effective October 1, 2012, voter-approved sales and use tax increases took effect in eight cities.

Area	New Acronym	New Code	Old Rate	New Rate
City of Hercules (Contra Costa County)	HTGT	286	8.25%	8.75%
City of Pittsburg (Contra Costa County)	PPTG	288	8.25%	8.75%
City of San Pablo (Contra Costa County)	SPGT	290	8.25%	8.75%
City of Ridgecrest (Kern County)	RTGT	291	7.25%	8.00%
City of Greenfield (Monterey County)	GFGT	293	7.25%	8.25%
City of Soledad (Monterey County)	STEG	292	7.25%	8.25%
City of Santa Maria (Santa Barbara County)	SMAG	295	7.75%	8.00%
City of Sonoma (Sonoma County)	SOGT	297	8.00%	8.50%

Note: Solano County extended their existing tax rate through September 30, 2030.

Stanislaus County extended their existing tax rate through June 30, 2018.

Visit the Board's website for a [complete list](#) of city and county sales and use tax rates.

SMALL BUSINESS FEATURE

NEW SMALL BUSINESSES: A BRIGHT LIGHT IN OUR DIM ECONOMY

U.S. Small Business Administration



Your Small Business Resource

High unemployment and under-employment have stimulated the entrepreneurial spirit in many and lead to the creation of new small businesses. With more time to plan and execute new or old business ideas, entrepreneurs are taking advantage of the few benefits of a recession. Since credit is tight or non-existent, negotiating better terms with suppliers is more likely. And deflation in the cost of goods and office space has allowed business

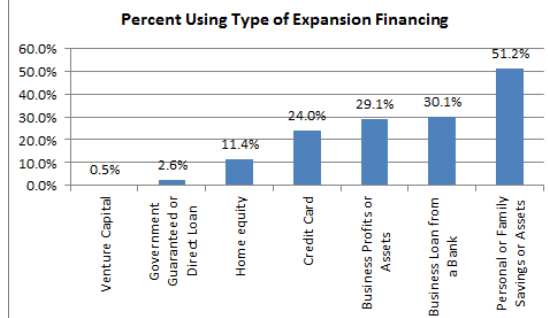
owners to stretch their dollars by using auctions for purchases of fleet vehicles, large machinery, and restaurant supplies.

Lower interest rates and assistance from local and state agencies, chief among them the **Small Business Administration**, have allowed small businesses to survive during the recession. Small Business Micro-loans have contributed to the surge in small businesses opening, but the majority of financing continues to be from personal finances.

Many small business owners are demonstrating savvy by taking advantages of the internet and other emerging technology to perform tasks that once took several employees to handle. These entrepreneurs are using free social media outlets for advertising, improving customer satisfaction which has become vital to new and existing businesses in

surviving these tough economic times.

By helping the local economy, small businesses play a big part in bringing the U.S. back to economic stability. If these new small businesses can survive, they will be ahead of the curve when the recession ends. Support our small businesses by shopping, hiring, and eating in your local community.



Source: Created from data from the Survey of Business Owners, U.S. Census



Ms. Yee speaking at the Vietnamese American Center's Gala in San Diego.

Businesses Started During a Recession

Here are some interesting facts as taken from a recent USA Today article:

- 16 out of the 30 [corporations](#) that make up the current Dow Jones Industrial Average started during a recession
- Walt Disney Corporation began during the recession in 1923-24.
- Hewlett-Packard Corporation began in 1938 during the Great Depression.
- Microsoft Corporation began during the 1975 recession.



GAS CONSUMPTION WATCH

CALIFORNIA GASOLINE DEMAND ROSE IN SECOND QUARTER: AVERAGE PER-GALLON PRICE SPIKES TO \$4.26

Even with prices hitting \$4.26 per gallon, the demand for gasoline in California rose 0.8 percent in the second quarter of 2012. Californians consumed 3.69 billion gallons of gas during April, May, and June 2012. That amount compared to the 3.66 billion gallons consumed during those same months last year indicates a 0.8 percent increase.

However, for the 2011-12 fiscal year, California gas consumption was down 0.8 percent, the sixth consecutive year in which gas consumption declined. Since 2005-06, California gas consumption has declined by 1.3 billion gallons or by 8.2 percent.

California's average price-per-gallon was up 13 cents to \$4.26 in the second

quarter, a 3.1 percent increase compared to 2011's second quarter average price of \$4.13, according to the U.S. Energy Information Administration (EIA).

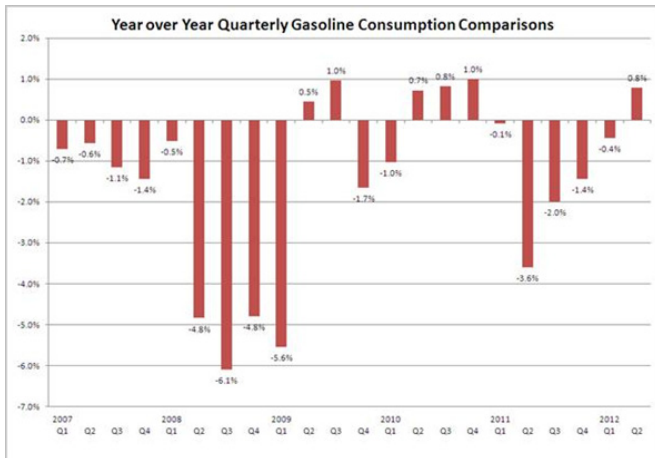
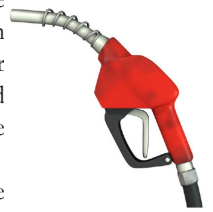
Looking at the entire U.S., regular gas prices averaged \$3.78 a gallon, down 7 cents in the second quarter of 2012 from same quarter last year.

DIESEL CONSUMPTION ALSO INCREASED

Diesel consumption increased 1.3 percent in the second quarter of 2012. California's diesel consumption was 676 million gallons during April, May, and June 2012, up 9 million gallons or 1.3 percent from last year's 667 million gallons. For five consecutive quarters, diesel consumption has increased.

While gasoline consumption decreased during fiscal year 2011-12, diesel consumption increased 3.0 percent, the first increase in four fiscal years. During the second quarter, California's average diesel prices were down 8 cents to \$4.25 per gallon in the second quarter according to the EIA.

Across the U.S., the average diesel retail price-per-gallon was down 6 cents to \$3.95 in the second quarter from a year earlier.



MOST CONSUMERS UNAWARE OF THE HIDDEN COST OF GASOLINE

A gallon of gasoline passes through many hands on its journey from deep beneath the earth to your local gas station. According to the **U.S. Energy Information Administration**, the four major factors influencing the price of gas are crude oil, refining, distribution and marketing, and taxes. The percentages of each change slightly from month-to-month; the following are for August 2012.

Crude Oil (64%)

Crude prices are the single biggest factor affecting the price of gasoline. Canada is the biggest supplier of US oil imports, followed by Saudi Arabia and Mexico.

Refining (18%)

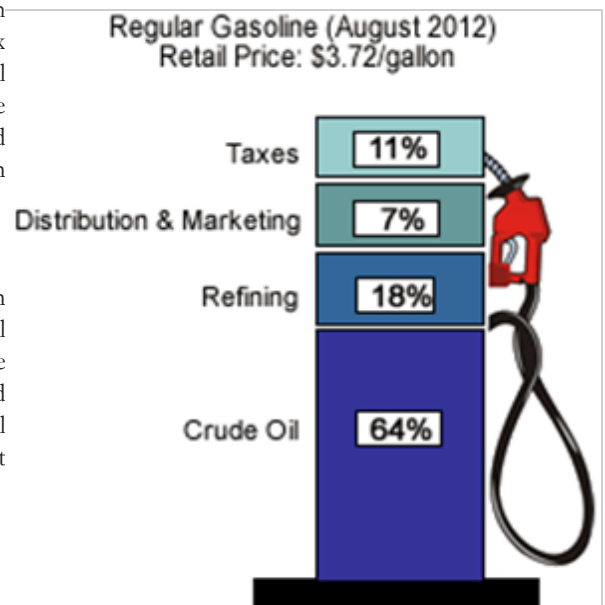
Once it arrives, crude oil is refined into more useful products such as gasoline, diesel fuel, heating oil, and kerosene. California requires refineries to use unique pollution-fighting gasoline blends that are not used in any other state.

Distribution and Marketing (7%)

It may seem strange that a huge necessity like gasoline needs to be marketed, but it does. Gasoline retailing is extremely competitive, especially with supermarkets and big box stores offering gas. Your typical gas station owner makes more on coffee, soda, snacks, and other items than they do on gasoline.

Taxes (11%)

The tax Californians pay on a gallon of gas includes a federal government fuel tax, a state fuel tax, a state underground storage tank fee, and the usual sales tax which is determined at the retail location.



UPCOMING EVENTS

BASIC SALES AND USE TAX CLASSES

The following Basic Sales and Use Tax classes are being offered free of charge in the First Equalization District from October 2012 through December 2012. Please visit the [website](#) to obtain more information about these classes.

October 16:	Basic Sales and Use Tax Seminar in English	(Oakland)
October 17:	Basic Sales and Use Tax Seminar in Chinese	(San Jose)
October 18:	Basic Sales and Use Tax Seminar in Mandarin	(San Francisco)
October 18:	Basic Sales and Use Tax Seminar in English	(Fairfield)
October 23:	Basic Sales and Use Tax Seminar in English	(Santa Rosa)
October 24:	Basic Sales and Use Tax Seminar in Spanish	(Santa Rosa)
October 25:	Basic Sales and Use Tax Seminar in English	(San Jose)
November 1:	Basic Sales and Use Tax Seminar in English	(San Francisco)
November 7:	Basic Sales and Use Tax Seminar in English	(Salinas)
December 5:	Basic Sales and Use Tax Seminar in English	(San Jose)
December 6:	Basic Sales and Use Tax Seminar in English	(San Francisco)